

State Budgeting: Structural Issues, Policy Influence, and Latino Concerns

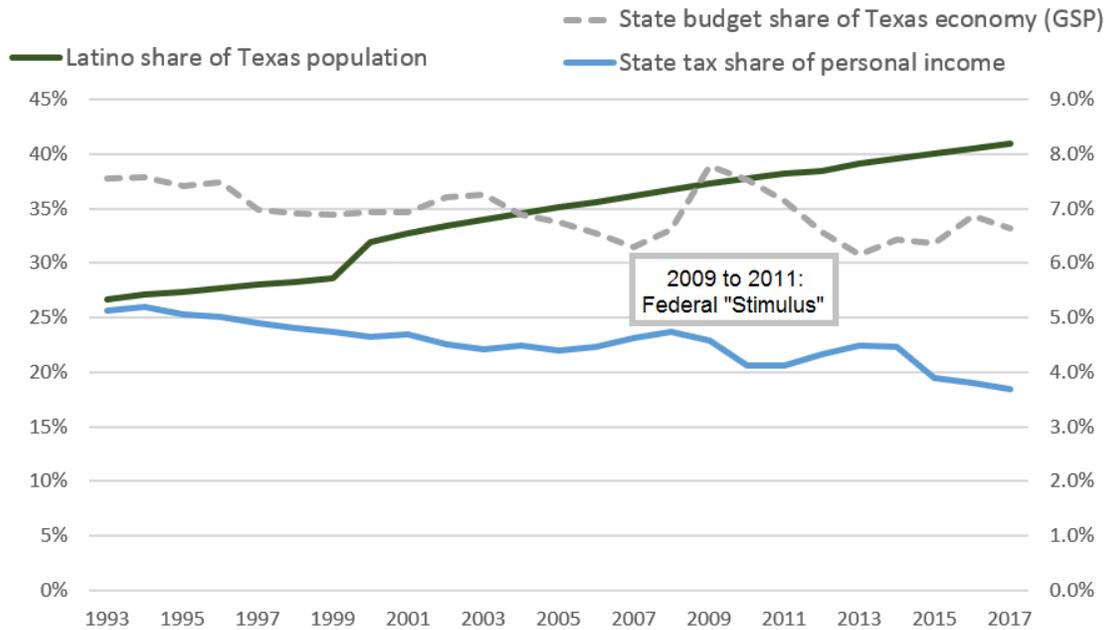
Eva De Luna Castro, Center for Public Policy Priorities, April 2017

INTRODUCTION

With nearly one in ten children in the United States calling Texas home, our state has a significant role to play in the future of this nation. Ensuring that our rapidly growing child population is prepared to meet tomorrow's challenges requires adequate levels of investment in education. Texas communities need high-quality early childhood education and public schools, and affordable colleges and universities, to ensure a prosperous future.

But making the investments in a prosperous future requires the political will to reform our antiquated revenue system and replace it with one that is more fair and more adequate. For too long, our state and local tax system has been unfair, and is now increasingly inadequate.

Texas has historically been a low-tax state, but since the early 1990s, state taxes as a share of state personal income have been falling. This is partly because the Texas tax system has not been modernized to keep up with economic growth and changes, and partly because of repeated cuts to state taxes by the legislature. With less revenue available for the state budget, legislators have made cuts to education and health care that severely damage our ability to prepare our kids for the future.



Sources: U.S. Census Bureau; Texas State Data Center; Texas Comptroller of Public Accounts

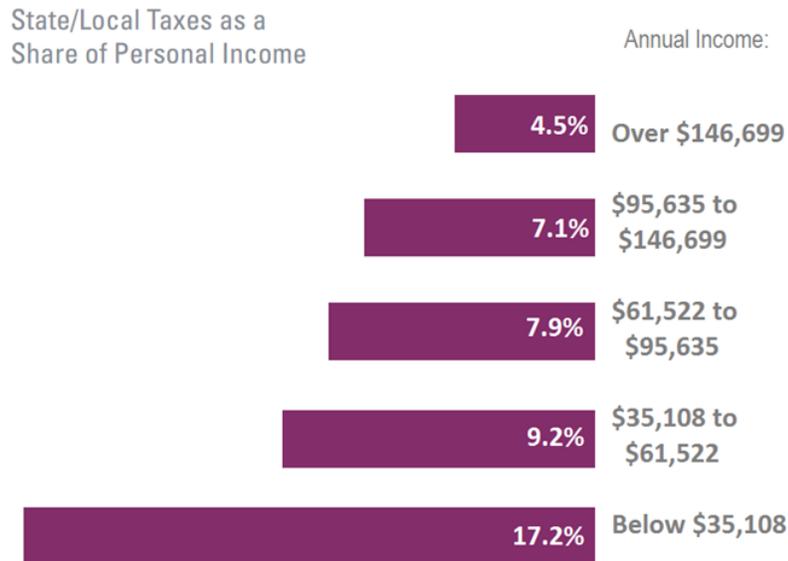
The following sections provide a few more data points on the Texas state and local tax system and on the state budget that should be useful in discussions of key fiscal reforms needed to ensure adequate future investments in education, health care, and other state-supported services.

TAXES AND TAX FAIRNESS

Unlike most other states, Texas' tax system does not include a personal income tax. The state relies heavily on consumption taxes such as the general sales tax (28 percent of state revenue in 2016), motor vehicle sales taxes (4 percent), gasoline taxes (3 percent), and tobacco and alcoholic beverage taxes (2 percent).¹ Local governments – school districts, cities, counties, and special districts such as community colleges – raise revenue primarily through the property tax, with some also levying a local sales tax.

The heavy reliance on consumption-based taxes makes Texas' tax system quite regressive, with low- and moderate-income families paying a disproportionate share of their income to support education, health care, roads and highways, public safety, and other public services. In other words, the Texas tax system takes a much greater percentage of income from working-class families than from wealthy ones. Texas' tax system is the third most regressive among the states,² falling most heavily on families struggling to make it into the middle class, and making it difficult to fund public services adequately.

The most recent state/local tax incidence report by the State Comptroller of Public Accounts estimates that the one-fifth of Texas households with the lowest income pay almost four times as much in taxes as a share of their income (17.2 percent), as do the one-fifth of households with the highest incomes (4.5 percent). Households are in the bottom fifth, or quintile, if they have less than \$35,100 in annual income. According to the 2016 American Community Survey, this quintile accounts for 33 percent of Texans of Hispanic origin, and 35 percent of African-American Texans – both significantly higher than the 18 percent of non-Hispanic White Texans in this income range.



Source: Texas Comptroller of Public Accounts, *Tax Exemptions and Tax Incidence*, March 2017.

PUBLIC SPENDING

Public services are provided by both state and local governments and, looking at the combined effort, Texas is a low-spending state – 40th per capita in 2014, according to the U.S. Census Bureau. This is the direct result of low state government spending (47th per capita in 2014), which in turn is directly linked to

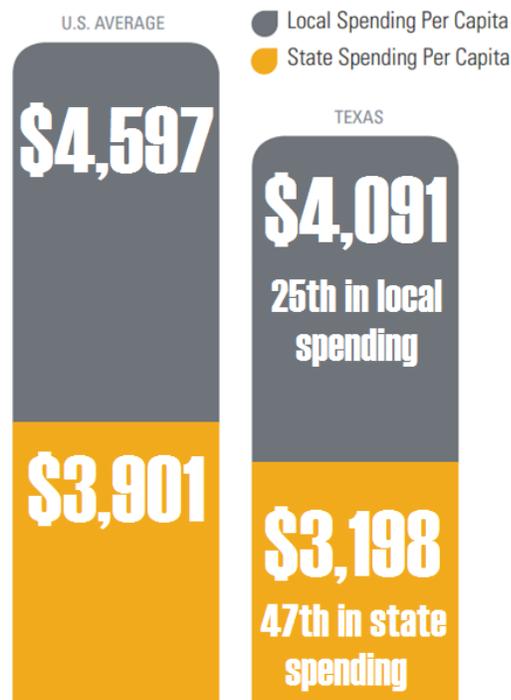
low state taxes (41st per capita). State taxes are the main source of General Revenue, which supports about half of the state budget (the “General Appropriations Act”).

General Revenue is often described as the “discretionary” part of the Texas budget, creating the impression that legislators are more or less free to allocate General Revenue as they wish. However, the Legislative Budget Board estimates that less than one-fifth of General Revenue-related spending is discretionary.³ An overwhelming share, 82 percent, is controlled by state court orders, state law, constitutional provisions, and federal laws, regulations, or court rulings.



Texas ranks 40th in state & local government spending per capita in 2014

Source: U.S. Census Bureau, Annual Surveys of State and Local Government Finances, Direct General Expenditures; Population from Census Bureau's 2014 State Estimates.



Texas is one of only four states with a biennial budget and biennial legislative session. The legislature convenes regularly in January of odd-numbered years and writes a budget for the two-year period that begins that following September, covering the next two state fiscal years. The general appropriations act authorizing the spending of state funds by state agencies is the one piece of legislation that must pass before the legislature adjourns. The legislature may also enact a supplemental appropriations act to make any needed changes to the fiscal year that has not yet ended, as well as approve passage of other smaller spending or revenue bills, including related constitutional amendments.

The appropriations act is approved by the House and Senate, then certified by the state comptroller to verify it does not use any more General Revenue than is forecast to be available, and finally sent to the governor for line-item vetoes and signing. If the legislature enacts state tax cuts or diverts existing revenue with constitutional dedications, General Revenue available for certification in future fiscal years decreases.

As mentioned earlier, Texas has long been a low-spending state, both overall (per capita) or per resident served by a particular state service, such as Medicaid or public schools. Looking at either the General Revenue or All Funds budget (including federal funds and the constitutionally dedicated Highway Fund),

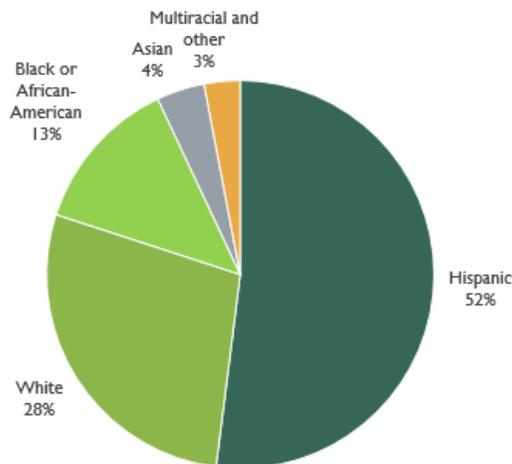
the two largest areas of spending are education and health and human services. This is why many advocates agree that Texas’ underinvestments in these two key areas aren’t due to misplaced priorities, but rather to a lack of sufficient revenue.

EDUCATION: Most public education spending in the state budget is formula aid provided to local school districts and charter schools. In 2016-17, \$19 billion is the state’s share of the Foundation School Program, compared to \$27 billion in school property taxes. This means the state share is currently 41 percent, and is likely to drop to 39 percent or lower by 2019 – down from almost 50 percent in 2008.⁴ Not counting the federal “stimulus” years, per-student spending from all sources (state, local and federal formulas and grants) peaked in 2008, adjusting for inflation.

In 2015-16, Texas public schools enrolled almost 5.3 million students, 52 percent of them Hispanic. The 2010-11 school year is when Hispanic students first accounted for more than half (50.3 percent) of Texas school children; Hispanics became the single largest ethnic student group in the 2001-02 school year.⁵ A much lower share of public school teachers is Hispanic – only 26 percent in the 2015-16 school year.⁶

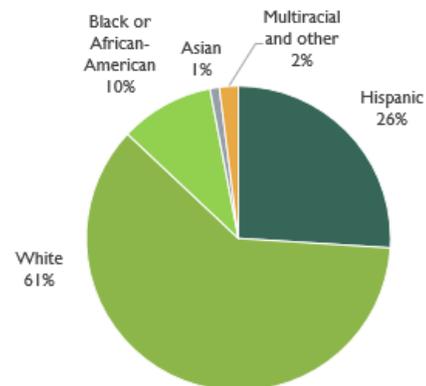
THE TEXAS BUDGET DIRECTLY AFFECTS...

5.4 million Public School Students



Source: Texas Education Agency, PEIMS Standard Reports, 2016-17

...and 347,300 Teachers

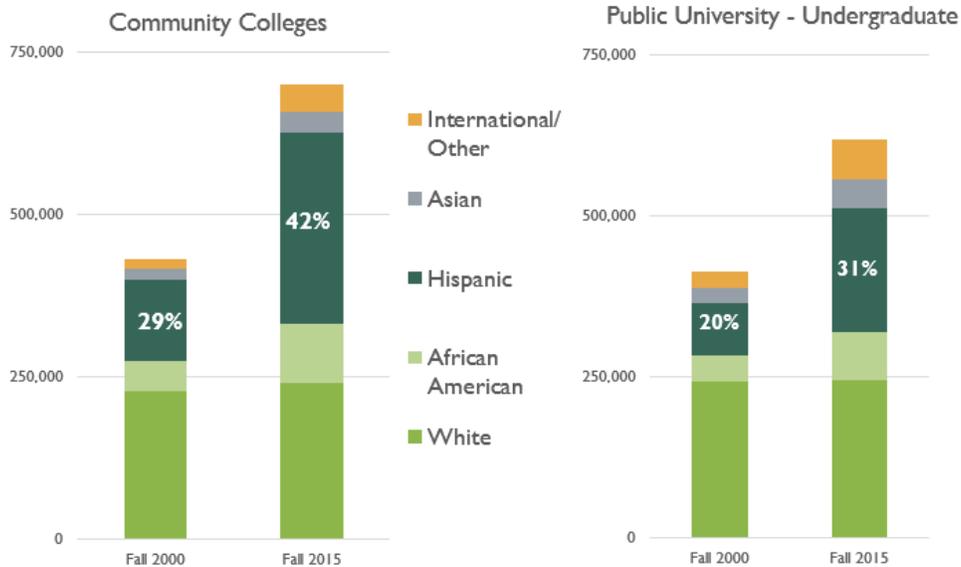


Source: Texas Education Agency, Academic Performance Report, 2015-16

Public higher education students in Texas are also increasingly non-White, with almost all enrollment growth since 2000 accounted for by Hispanic, African-American, Asian, and multiracial or international students. Of almost 701,000 community college students enrolled in Fall 2015, 42 percent were Hispanic, up from 29 percent 15 years earlier. Of the 619,000 students seeking bachelor’s degrees at public universities in 2015, 31 percent were Hispanic, compared to 20 percent in the Fall 2000 semester.⁷

As in the case of public schools, the share of public higher education that is provided by the state budget has been steadily declining. This decline accelerated after tuition deregulation in 2003, which led to an average doubling of tuition and fees between the Fall 2003 and Fall 2013 semesters at 4-year public universities.⁸

ACCESS TO PUBLIC HIGHER EDUCATION



General academic institutions now receive less than 25 percent of their funding from sources other than state appropriations.⁹ The lion’s share comes from tuition and fees, federal research and other grants, donations, endowments, and enterprise revenue. Community colleges’ operational revenue comes from property taxes (39 percent in 2015), tuition and fees (33 percent), and state appropriations (28 percent).¹⁰

All types of higher education institutions accounted for 17 percent of Texas General Revenue spending in fiscal 2000; by 2015, that share had decreased to 14 percent.

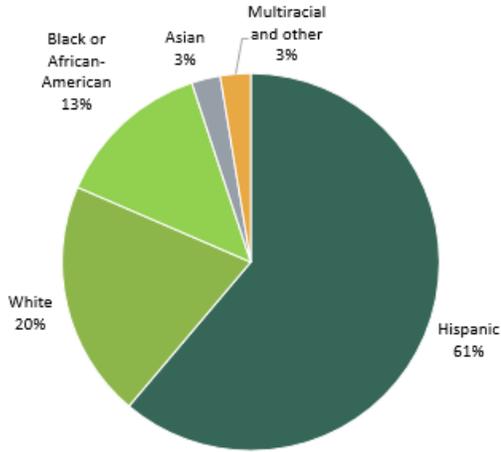
HEALTH AND HUMAN SERVICES: After education, the next largest area of the Texas state budget is health and human services, three-fourths of which is Medicaid-funded health care for low-income residents. Federal-state Medicaid, Children’s Health Insurance Program (CHIP), foster care, and various nutrition and public health programs combine to make federal dollars almost 60 percent of Texas health and human services spending.

The age of Medicaid enrollees is important in understanding the program’s cost trends. Children without a disability account for about two-thirds of full-benefit enrollees, but are less than one-third of Texas Medicaid spending.¹¹ Estimates of Texas Medicaid and CHIP enrollees in 2015 by ethnicity and age are summarized on the next page.

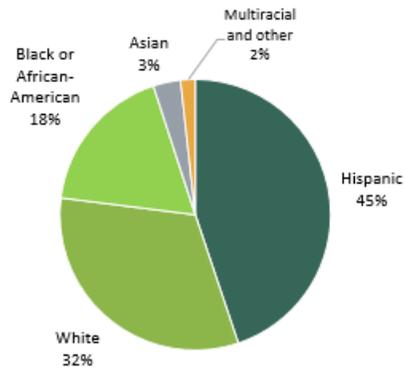
As in the case of public and higher education, the amount spent by the state per Medicaid enrollee has been on a downward trend, adjusted for inflation. For Texas Medicaid, the recent peak in per-enrollee spending was 2002. Since 2003, spending has decreased due to provider rate cuts, shifts to managed care, and other cost-containment measures enacted by the legislature.

TEXAS MEDICAID BENEFICIARIES

Medicaid enrollees under 19



Medicaid enrollees 19 and over



Source: Census Bureau, CPS Table Creator, Coverage in 2015

¹ Texas Comptroller of Public Accounts, *Biennial Revenue Estimate 2018-19*, January 2017, page 39.

² Institute on Taxation and Economic Policy, *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, 5th Edition, January 2015, page 4.

³ Legislative Budget Board, *Fiscal Size-Up 2016-17*, May 2016, page 28.

⁴ Legislative Budget Board, "Texas Education Agency: Summary of Recommendations: House," February 16, 2017, page 8. www.lbb.state.tx.us/Documents/HAC_Summary_Recs/85R/Agency_703.pdf

⁵ Texas Education Agency, *Enrollment in Texas Public Schools, 2015-16*, Table 4, page 8; *Enrollment in Texas Public Schools, 2001-02*, Table 4, page 7.

⁶ Texas Education Agency, *Academic Performance Report, 2015-16*, Statewide Results.

⁷ Higher Education Accountability System, *Statewide Totals, Community Colleges and Universities*, Fall 2000 and Fall 2015.

⁸ Texas Higher Education Coordinating Board, "Overview: Tuition Deregulation," February 2014, www.theccb.state.tx.us/reports/PDF/3369.PDF

⁹ This is the average for all institutions, and a wide range of state support exists across the various campuses, from 14 percent at the University of Texas at Austin to 86 percent for Sul Ross State University Rio Grande College. See Legislative Budget Board, "General Academic Institutions: Summary of Recommendations: House," February 13, 2017, GAI Appendix 11, page 53, www.lbb.state.tx.us/Documents/HAC_Summary_Recs/85R/Agency_GAI.pdf

¹⁰ Texas Association of Community Colleges, Testimony of Jacob Fraire, President and CEO, to the House Committee on Appropriations, February 2017, slide 13. www.tacc.org/uploads/tiny_mce/ceo/020317_hac_tacc.pdf

¹¹ Texas Health and Human Services Commission, *Texas Medicaid and CHIP in Perspective*, 11th edition, February 2017, page 188. hhs.texas.gov/sites/hhs/files/documents/laws-regulations/reports-presentations/2017/medicaid-chip-perspective-11th-edition/11th-edition-complete.pdf